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ABSTRACT

On average, unemployed U.S. citizens remain jobless for much less time than their European counterparts do. The relatively low level of unemployment in the United States is attributable to two factors: a social protection system that offers far less protection than those in Western Europe do and a broad range of job openings. The fact that employment growth in the United States has far exceeded that in Germany cannot be explained by superior economic growth. The recent employment growth in the United States has not resulted in an increase in national income; rather, the national income is being divided among more people. Average wages have stagnated, and the wage differential between the upper and lower income brackets has increased. Most growth in employment in the United States has been concentrated in the services sector, where income is often either low or well above average. Policymakers seeking to stimulate employment in Germany must not ignore the high costs of the recent positive employment trend in the United States: increasing wage disparities, social inequality, and high levels of poverty. General wage restraint, redistribution and greater flexibility of working hours, and (possibly) a negative income tax for low earners can also stimulate employment. (Contains 71 references.) (MN)

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No. 25

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Institute for Employment Research

ED 419 948

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Lessons We Can Learn

- Unemployment Trends
- Factors Affecting Employment Growth
- Good Jobs – Bad Jobs?
- Labour Market Policy
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- What Lessons to Be Learnt?

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- business and personnel management

Dr. Heinz Werner*)

Labour Market Trends in the United States – Lessons We Can Learn [1]

0 Abstract

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3 Factors affecting employment growth

4 Good jobs – bad jobs? How earnings and jobs have developed

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[1] I should like to thank the Office of the Counselor for Labor Affairs of the Embassy of the United States of America for its help in obtaining the required information and my colleague Inge König for the extensive work on the tables and graphs.

0 Abstract

Over the last few years the US has enjoyed one of the lowest levels of unemployment among western industrialised nations, although unemployment has been considerably higher for young people and certain ethnic groups. On average, Americans remain jobless for much less time than Europeans. This may be attributed to two factors: firstly the US social system offers far less protection than in western Europe. This means that there is considerable pressure to find a job in the US, even at lower pay. At the same time, the range of job openings is broad, from well-paid to very poorly paid – this makes it possible to find gainful employment and promotes a steady increase in employment.

The ability of the US economy to constantly create additional jobs and to integrate a growing number of people seeking employment into the labour market is remarkable. The fact that employment has grown more in the US than in Germany cannot be explained by superior economic growth: the economic growth has produced a higher employment intensity. Americans continue to work long hours and the figures for part-time employment have not changed. The national income must therefore have been divided among more people. It is certainly true that even though average wages have stagnated, there has been a further increase in the wage differential between the upper and lower income brackets.

Most growth in employment is concentrated in the services sector where income is often either low or in some cases well above average. In the future, an above average increase in employment is also expected for activities that require highly qualified personnel. The cost of this positive employment trend in the US has been high -- increasing wage disparities, social inequality and high levels of poverty. Therefore Europe should not follow US trends indiscriminately. General wage restraint, redistribution and greater flexibility of working hours can also stimulate employment. Lower starting wages for certain categories, or waiving social security contributions might improve the chances of the less qualified of getting a job. Similar proposals in the private services sector might achieve the same end: some of the wage costs could be offset by tax breaks. A negative income tax for low earners might be another option.

1 Introduction

Many European countries have seen record numbers of people out of work in recent years. Yet in the United States, unemployment has been falling while employment has steadily increased over the last few decades. From a European perspective, the US economy's constant capacity to create new jobs and to integrate the constantly growing potential labour force into the labour market is remarkable. This sustained and substantial gain in employment has even led people to speak of an American 'employment miracle'. A closer look at the US labour market to identify the mechanisms behind this employment growth seems appropriate.

This paper will begin by surveying the structure and trends of unemployment in the US. It will examine certain employment growth factors and compare the situation with conditions in Germany: when the US labour market is compared to European labour markets, it is generally argued that the latter are mostly characterised by poor quality and

poorly paid jobs. The author then addresses income trends and the types of new jobs available, and goes on to discuss additional factors that affect employment, such as the labour market situation, and social and labour market policies. The last section of this paper attempts to draw conclusions from the comparisons made.

2 Unemployment

In the US, unemployment rates are now among the lowest of all western industrialised countries. This has not always been the case (see Fig. 1). In the early eighties, unemployment was running at almost 10 percent. The annual average for 1996 showed a drop to 5.4 percent, or 7.2 m jobless. Although this figure is still a few hundred thousand higher than in 1990, the unemployment rate dropped because of the enormous growth in employment .[2]

US unemployment rates for men and women are about the same, unlike in most European countries. There are, however, enormous differences between age groups and ethnic minorities: the unemployment rate for young people (under 20), Afro-Americans and Hispanics is twice the average. When several factors coincide, the rise in unemployment statistics is alarming: the unemployment rate for young blacks is more than 30 per cent. In contrast to the situation in European countries, unemployment among older people remains well below average.

In most European countries, long-term unemployment is a major problem. In the US, average spells of unemployment are considerably shorter than in Europe and the proportion of all unemployed who are long-term unemployed is significantly smaller. In 1996, the number of people 'unemployed for one year or more' was almost 10 per cent, while it was almost 50 per cent in many European countries.[3]

3 Factors affecting employment growth

As unemployment figures have been decreasing, employment has grown consistently and substantially. Since 1970, employment has been growing by 1.5–2% annually. The average annual growth rate of employment for 1983–1993, for example, was approximately 1.8%. The comparable figure for the EU as a whole was 0.6%, and for Germany 0.7%. For Germany it is important to note that employment growth during this period (see Fig. 2) was considered to be remarkably high.

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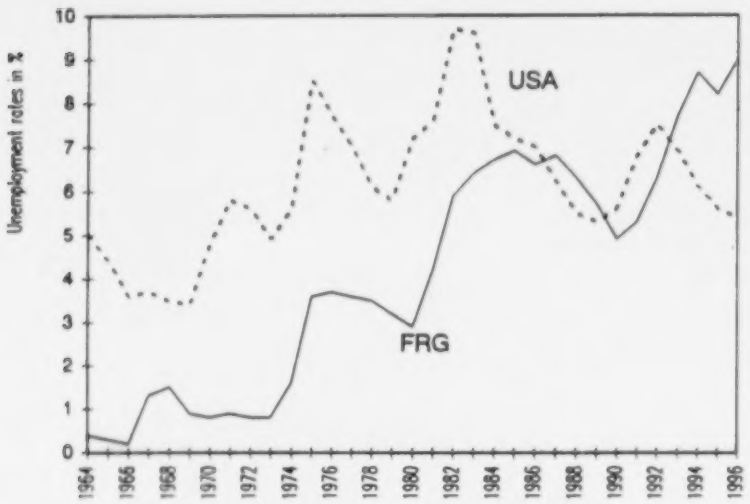
[2] In the US unemployment figures are based on monthly surveys of a representative sample of households. To improve comparability, the unemployment figures of the Statistical Office of the European Communities are used for Germany or the EU: these are likewise based on representative surveys of households.

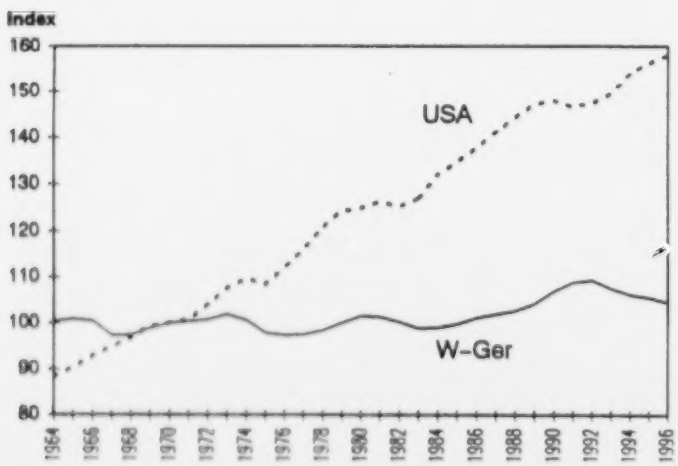
[3] This refers to the current duration of unemployment and not to completed spells of unemployment.

Figure 1:
Unemployment Rates in the USA and in Germany*)
1964 to 1996



*) includes East Germany after 1991
Source: OECD, Eurostat

Figure 2:
Employed Persons in the USA and in Germany (West)
1964 to 1996
Index 1970 = 100



Source: OECD, Labour Force Statistics, several years; author's own estimates

Growth in employment may be the result of a combination of several factors. To identify differences or common elements between countries, it is useful to look first at labour market supply (demographics) and then at demand (economic growth).

The demographic factors affecting employment growth can be represented by the following:

$$EP = Pop \times AR \times ER$$

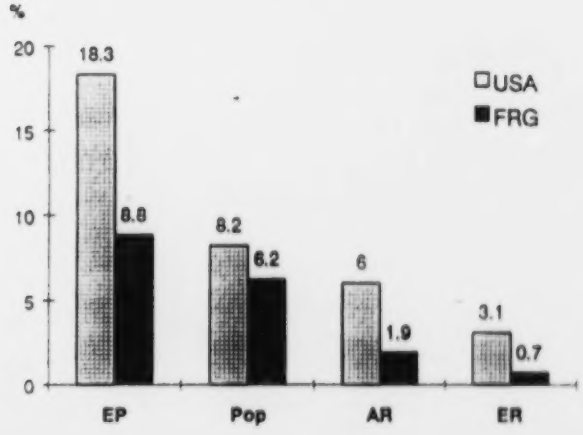
$EP = Pop \times LF/Pop \times EP/LF$

where:
- EP = employed persons
- LF = labour force (employed + unemployed)
- Pop = working-age population
- LF/Pop = activity rate = AR
- EP/LF = employment rate = ER

The relationship can approximately be expressed in growth rates and indicates the role played by each factor, permitting a cross-country comparison. Percentage changes between 1983 and 1993 are shown in Figure 3.

Figure 3:
Components of Employment Growth on the Supply Side (Demographic)

Changes 1983-1993, in per cent



Source: Eurostat, Annual Statistics Report of the FRG

The rate of change of the various employment factors show that the high US employment growth is mainly fed by population growth (working-age population): there are more young people and the immigration rate is high. Annual net immigration is esti-

mated to be 1 million.[4] This is a significant figure, even for a country as large as the US. Another important factor was the higher labour force participation rate, especially of women, although it is true that the female participation rate had been high in the US before.[5] The higher employment rate also contributed to stronger employment growth, much more than was the case in the FRG.[6]

The FRG's employment trends for the period under review also appear to be positive. The economic situation was good and capable of absorbing a large number of immigrants. At other times, the active population has not developed as positively (see Figure 2). Since 1993, employment in former West Germany has been decreasing, while it has continued to increase in the US.

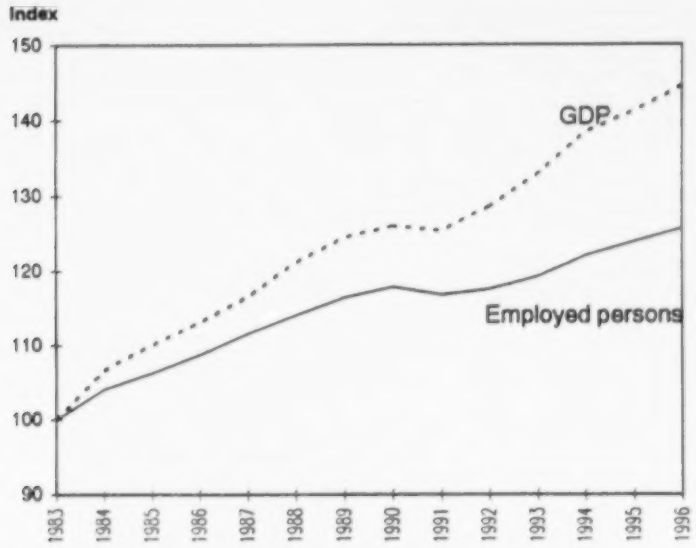
Is more economic growth the reason for the enormous expansion of employment in the US? Between 1983 and 1993, GDP in the US grew annually by 2.9% in real terms, and in Germany by 2.8%. Thus, GDP growth rates hardly differed. What was different was the effect this growth had on employment. When these GDP growth rates are contrasted with changing rates of employment, this becomes very obvious. Figures 4a and 4b show the changes in GDP and employment for Germany (West) and the US over time. In the case of the US, the employment curve closely parallels the economic growth curve: any change in economic growth is followed by a change in employment in the same direction and of similar extent. The slightest growth of the GDP triggers an increase in employment in the US -- this is not the case in Germany or elsewhere in Europe. This point is again illustrated by figures 5a, 5b, and 5c which show annual GDP growth rates and corresponding changes in employment. The regression line for the USA crosses the x-axis near zero. This intersection represents the 'employment threshold', i.e. the level of economic growth that will trigger employment growth. The employment threshold is lower in the US than in Europe or Germany.

[4] Martin, Philip; Midgley, Elisabeth (1994): Immigration to the US: Journey to an Uncertain Destination, in: Population Bulletin, Vol. 49, No. 2, p. 4

[5] For 1995: USA 71%, Germany 61%. Source: OECD (1996): Employment Outlook, Paris, p. 197

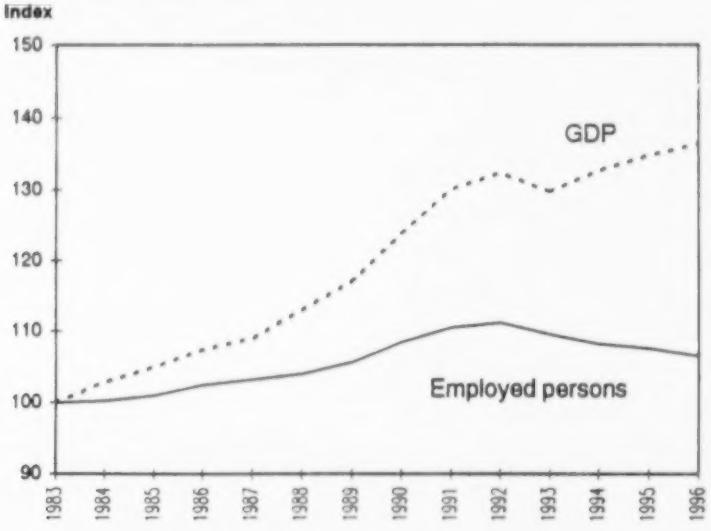
[6] The higher employment rate is due to the reduction in unemployment. A mathematical transformation shows that EP/LF = 1 - UR/100, UR = unemployment rate.

Figure 4a:
GDP (at 1990 prices) and Civilian Employed Persons in the USA 1983–1996
Index 1983 = 100



Source: US Department of Labor: Employment and Earnings, January 1997
OECD (1997): National Accounts, Vol. I, 1960–1995;
OECD Economic Outlook No. 61, June 1997

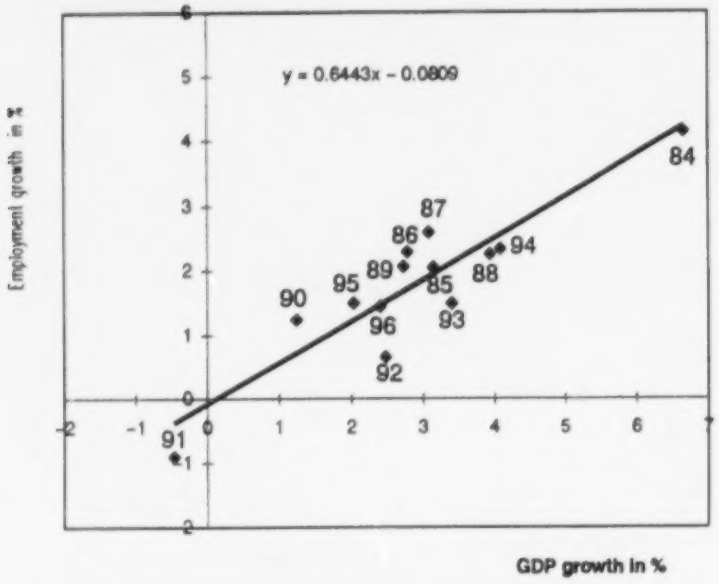
Figure 4b:
GDP (at 1990 prices) and Civilian Employed Persons in Germany (West) 1983–1996
Index 1983 = 100



Source: Eurostat (1996):Employment and Unemployment1980–1994;
OECD (1996): National Accounts, Vol. I, 1960–1995; 1995 and 1996 IAB

Figure 5a:

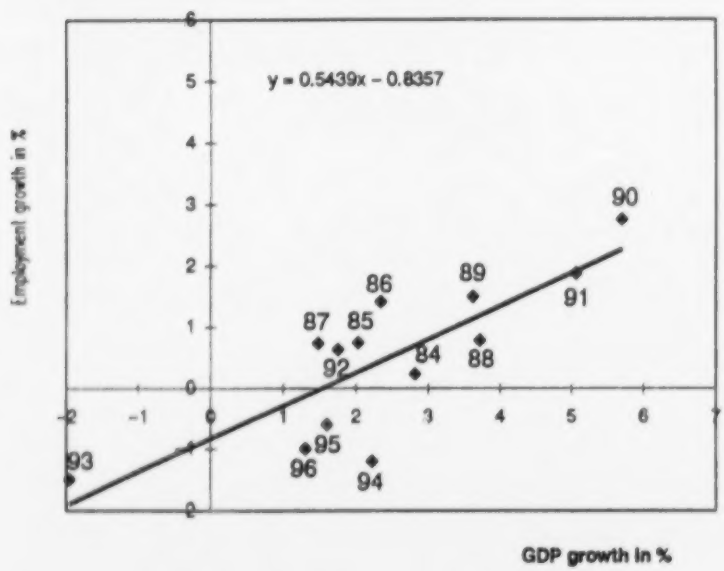
Growth Rates of the GDP (at 1990 prices) and of Civilian Employment in the USA 1984–1996



Source: US Department of Labor: Employment and Earnings, January 1997;
OECD (1997): National Accounts, Vol. I, 1960–1965;
OECD (1997): Economic Outlook No. 61, June 1997

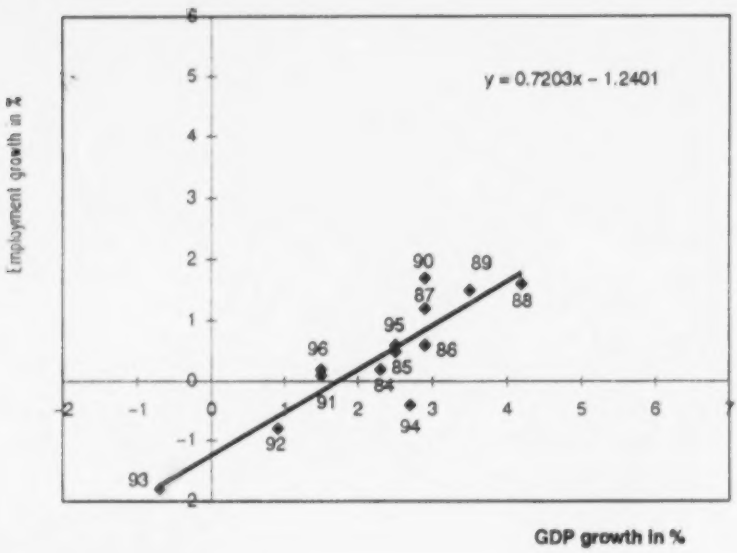
Figure 5b:

Growth Rates of the GDP (at 1990 prices) and of Civilian Employment in Germany (West) 1984–1996



Source: Eurostat (1996): Employment and Unemployment 1980–1994;
OECD (1996): National Accounts, Vol. 1, 1960–1994; 1995 and 1996 IAB

Figure 5c:
Growth Rates of the GDP (at 1990 prices) and of Employment 1984–1996 in the EU of 15 *



* Includes East Germany after 1995
Source: European Commission (1996): European Economy No. 62

If employment growth in the US cannot be explained by higher economic growth, then which other labour market factors are responsible for this growth? Productivity and working hours, perhaps? The formula below represents the extent to which productivity, active population and working hours each contributes to the GDP:

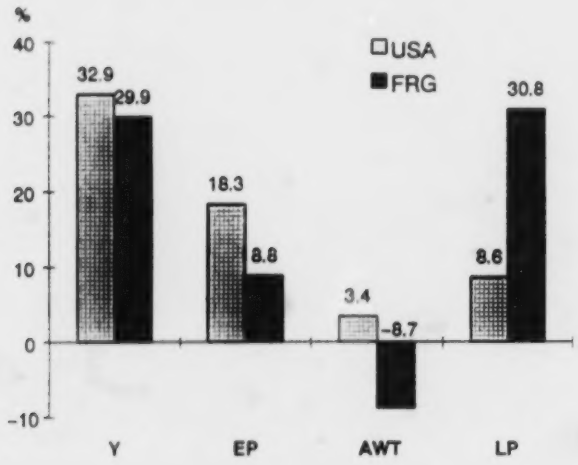
$$Y = EP \times AWT \times LP$$

$$Y = EP \times AV/EP \times Y/AV$$

where: Y = GDP
EP = employed persons
AV = annual total volume of work in hours
AV/EP = average annual working time per employed person in hours = AWT
Y/AV = labour productivity per employed person per hour = LP

The outcome can approximately be expressed in growth rates. Figure 6 shows the rates derived for the period 1983–1993.

Figure 6:
Components of Employment Growth on the Demand Side (Economic growth)
Changes 1983–1993, in per cent



Source: OECD, Eurostat

The formula Y = EP x AWT x LP indicates that growth in employment is the dominant factor in the US. It is also clear that the labour productivity trend is distinctly lower in the US than in Germany and therefore contributes much less to economic growth. This in turn affects wage trends, as will be discussed below.

It is interesting to note the trend in working hours in the US. With growing employment, there has not been a reduction in working time. Average annual working hours have remained at the level of about 1950 hours, which is high compared to European countries, and have not decreased over time. The growth in employment can not be explained by part-time work. 18 per cent of all workers are part-time workers, a proportion that has remained more or less stable at since 1983. Changes in working hours in Europe and in the US went in opposite directions. The volume of working hours in the US economy has grown in parallel with employment.

In short, higher employment growth in the US as compared to Germany clearly cannot be explained by higher economic growth. The same is true for working hours: average annual working hours in the US have remained almost unchanged, as have part-time working hours. However, economic growth was distributed over a larger number of employed persons in the US than in Germany. The main differences are productivity and wage trends: wage trends and wage disparities are addressed below.

4 Good jobs – bad jobs? How earnings and jobs have developed

In discussions about the US labour market, it is often argued that, although the growth in employment is impressive, the incomes generated by these jobs and their quality are inadequate. To verify this hypothesis we shall first look at earnings trends, then at industries and job structures.

4.1 Wages

Employee compensation data can be found in OECD national accounts tables. The average hourly wage in a given country can be worked out by relating this compensation to the number of people gainfully employed and their annual working hours. To obtain real terms, the employee compensation figure must be adjusted for prices. To achieve comparability with the US, Deutschmark figures must be converted into dollars with purchasing power parity. The result is shown in table 1 below.

Table 1: Average hourly wage converted into dollars with purchasing power parity

	1983	1993
USA	16.1	17.2
FRG (West)	12.4	16.2

Source: OECD, National Accounts, OECD (1996): Employment Outlook, (and author's own calculations)

Average wages almost stagnated in the US, which is not surprising since, while economic growth was similar to that in Europe, employment expanded much more. Under these circumstances, one might even have expected to see a drop in real wages. However, it should not be ignored that these are average figures. Actual wages might be very scattered around this average, or even have taken off in different directions. For example, if wages at the bottom of the scale continue to drop while top wages continue to climb, the disparity between them becomes more pronounced. In other words, wage disparity will widen. This will be discussed below.

A classification of employees according to wages earned reveals the nature of wage disparity. The OECD, for instance, classifies by deciles, where the first 10 per cent of all employees belong to the lowest income category, the upper limit of which is D1, i.e. the last and thus highest income figure within the first decile of employees. The median (medium figure) is the upper income limit (D5) for the middle 10 per cent, etc. OECD data indicates that wage disparity changed most drastically in the US – exceeded only by the change in the UK.

Table 2: Wage disparity in the USA and in Germany (West)

		1983	1993	1995
USA	D9/D5	1.86	2,0	2,04
	D5/D1	1.99	2.06	2.13
FRG (W)	D9/D5	1.63	1.64	
	D5/D1	1.46	1.37	

Source: OECD (1996): Employment Outlook, p. 62

Note: D1 and D9 refer to the respective upper wage limits of the corresponding decile ranked by income. For example, 10% of wage earners earn less than D1. D5/D1 means the ratio between the medium and the lowest income decile

Table 2 shows that there always used to be large differences in wages in the US, a situation which has become even more pronounced over time. Not only did the gap between the medium incomes and the upper income decile widen, but there was also a significant drop in the wages of low income earners. Wage differences in Germany are much less pronounced and they hardly changed during the period under review.[7] More wage disparity in the US means that, while overall employment grew, this growth was above average both in the lower and in the upper income categories.[8]

Houseman[9] provides an additional insight in the changes and structure of hourly wages in the US. Her work show how real hourly wages changed by deciles and by gender. According to her findings, some real hourly wages fell. This is particularly true for men in the medium and lower income brackets but applied to women only in the lower income decile. The upper income categories were able to strengthen their position considerably, leaving a small overall wage disparity between the sexes. The fact that wage disparity between women is also growing is shown by the considerable drop in real income for the lower income categories and the increase in the upper decile. Comparisons of wage trends by level of education or ethnic origin also reveal an increasing polarisation of wages. The wage gap widens as the level of education rises[10] and it is becoming more pronounced between white and black Americans.

A detailed breakdown of earnings by occupation would also demonstrate how earnings have taken off in different directions. However, an extensive exploration of this would go beyond the scope of this paper, therefore reference will be made to certain publications cited.[11]

In the early eighties, wages started to drift apart: the earnings of the top decile of wage earners went up by 11% in 1980–1995, while wages earned by lowest decile (bottom

[7] There are also calculations which show that wage disparity has widened somewhat in Germany as well, although by no means to the same extent as in the USA.

[8] This statement cannot be derived only from trends affecting the 10% groups but includes the following consideration: when imagining the same income scale for two different points in time and contrasting this with the changes of the (upper) income limits according to the 10% groups one sees that employment grew above average in the top and bottom income groups because of the increased wage disparity.

[9] Houseman, Susan (1995): Job Growth and the Quality of Jobs in the US Economy, in: Labour, Special Issue, p. 108

[10] Houseman (1995), p. 111 ff., and OECD (1996): Economic Survey: United States, p. 114 f.

[11] For this see: Neal H. Rosenthal (1995): The Nature of Occupational Employment Growth: 1983–1993, in: Monthly Labor Review, June 1995, p. 45 ff and Randy Ilg (1996): The Nature of Employment Growth, in: Monthly Labor Review, Vol. 119, No 6, June 1996, p. 29 ff.

ten per cent) fell by 4%. The median also dropped by almost 4%.[12] The same disparities apply to household incomes. The wealth distribution gap is quite dramatic: almost one fifth of the US population now owns more than 85% of all wealth. Between 1983 and 1992, 99% (!) of all newly created wealth went to the 5% top earners, while lower income groups suffered a loss of 24%.[13] Robert Reich, secretary of labour in Clinton's first administration, repeatedly pointed to the dangers of a split in US society into rich and poor. If America wants to master its future, he said, 'the chasm of inequality must first be traversed.'[14] The sustained positive development of the economy has meanwhile brought this debate to a halt.

Houseman's[15] investigations on the 'quality' of the jobs newly created in the period 1983–1993 in the USA, yields mixed results -- similar to those on wage trends. Not only do lower income groups and part-time workers receive lower wages, they also receive fewer fringe benefits from their employers and have less job security. It should be noted that even for mid-range and higher-level jobs, working conditions are worse in the US than in Germany or Western Europe. Average annual leave is only about 2 weeks; 40 million US citizens have no private or public health insurance. Fewer and fewer Americans have health insurance coverage through their employers. The US state pension insurance scheme (social security) pays much lower benefits (1995: maximum $1.200 per month) -- recipients therefore need an additional private or company pension insurance.

In the US, in addition to increasing wage inequalities, employees' positions are made insecure because of the income losses they frequently have to accept when forced to change jobs. After being laid off, many Americans have no choice but to find a new job as quickly as possible, because otherwise there is no social security -- and frequently the new job will pay much less. The lack of health insurance coverage is especially critical for someone who is made redundant, because most insurance policies were funded through an employer.[16] Private health insurance is expensive or is limited by a number of constraints. For about 15% of all workers who find work again after being laid off, health insurance coverage terms are worse with their new employer.

The trend towards greater wage inequalities was paralleled by a larger number of households with incomes below the government-defined poverty line. In 1982, 34.4 million Americans were affected. By 1993, this figure reached a record high of 39.3 million, i.e. 15.1% of the population. One third are children. Recent data indicate that real incomes are going up as the economy improves and that the proportion of Americans whose incomes were below the poverty line has started to decrease slowly for the first time since 1994. Whether or not this is a sustained reversal of the trend is still an open question. The poverty line for a family of four was defined at $16,000 per year in 1996.

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[12] Department of Labor - Office of the Chief Economist (1997): The Unfinished Agenda - Technical appendix, Washington, p. 2

[13] Ibid., p. 11

[14] In one of his farewell speeches he said: 'The bridge to America's future must first traverse the chasm of inequality.' See Robert Reich (1997): The Unfinished Agenda, paper held at the Council on Excellence in Government on 9 January 1997, Washington, p. 5

[15] Houseman (1995): p. 100 ff..

[16] Employers can reduce their taxes by their expenditure for health insurance. It is therefore better for them to list it as part of the wage paid to the employee.

Such an assessment of wage disparity warrants two comments:

(1) Inequalities will remain less pronounced if large numbers of the 'working poor' succeed in leaving the low wage groups. Unfortunately this is only happening to a limited extent. Although it is true that many young people with temporary jobs only are among the low wage earners, the OECD's results show that about two fifths of the low wage earners still were in the lowest wage segment six years later.[17]

(2) Wages are only one form of income. If transfer income is added to wages, the economic situation of the individuals concerned is improved. In the US, some of this is accomplished by social transfers such as programmes like Aid to Families with Dependent Children (AFDC, now TANF = Temporary Assistance to Needy Families), primarily aimed at single mothers, and by government food stamps for the needy. The concept of the 'Earned Income Tax Credit' (EITC) might be worth exploring in Germany. This is a kind of negative income tax which was introduced in 1975. Up to a certain wage ceiling, low wage earners do not have to pay any taxes; in fact, they even receive a wage bonus from the tax authorities if certain limits are not exceeded in the annual tax return. At any rate, if these transfers are taken into consideration, the number of US citizens below the poverty line is perhaps two to three per cent[18] lower.

4.2 The US job market

A frequently heard argument is that although the US growth in employment is impressive, the quality of the jobs created is poor. Table 3 shows trends by industry and occupation from 1983 to 1993, and reveals a disparate situation. It is generally true that employment in manufacturing and mining is decreasing, just as in all other industrial countries. However, table 3 also shows that employment growth by no means occurred only in low skill jobs, or industries characterised by below-average wages.

The greatest employment growth is in the service sector. This covers a wide variety of industries such as 'finance, insurance, real estate' or 'wholesale trade', where one can earn an above average income, but it also includes sectors such as 'retailing'[19]or 'other services', where pay is below average. Of all the industries surveyed, 'other services' shows the highest employment increase in numerical terms. Between 1983-1993, 60 per cent of employment growth occurred in this sector. This 'other services' sector is very heterogeneous and wages for some activities are significantly above average. Examples are: business-related services (20%), health care (30%), education (6%) or the legal profession (3%). The variations in employment by occupation and industry in Table 3

[17] The lowest wage segment includes up to 0.65 of the median income. The risk of remaining in the bottom segment is highest for women and unskilled workers. See OECD (1997): Employment Outlook, Paris, p. 38. A survey by the Bureau of Labor Statistics confirms the high persistence of poverty for these groups; see Maya Federman et al. (1996): What does it mean to be poor in America, in: Monthly Labor Review, Vol. 119, No. 5, May

[18] Council of Economic Advisers (1997): Economic Report of the President, Washington, p. 186

[19] Retailing also includes what the Germans call 'hamburger jobs'. About one third of the people employed in retailing are working in 'eating and drinking places' andof these, of course, only a minor part have 'hamburger jobs'.

Table 3

Employment Change for Major Occupational Groups of Wage and Salary Workers by Industry Division in the USA, 1983–1993 (in 1,000) and Average Weekly Pay, 1993 (median, in USD)

Industries (in brackets weekly earnings 1993 in $) / Occupations (in brackets weekly earnings 1993 in $)		Total, all industries (394)	Agriculture, forestry, and fishing (252)	Mining (637)	Construction (454)	Manufacturing (452)	Transportation, communications, and public utilities (546)	Wholesale trade (446)	Retail trade (225)	Finance, insurance and real estate (448)	Other Services (371)	Government (555)	Employment change expected for 1994–2005
Total all occupations	(394)	19.726	81	-353	628	-627	750	830	4,156	1,138	11,737	1,385	17,694
Executive, administrative, and managerial occupations	(635)	2,411	6	-38	165	137	83	126	-20	436	1,231	287	2,168
Professional speciality occupations	(617)	3,951	3	-31	-11	145	22	55	83	88	3,217	378	5,073
Technicians and related support occupations	(495)	926	1	-7	-1	-41	43	30	78	30	741	52	876
Marketing and sales occupations	(314)	2,683	3	-9	11	52	61	197	1,742	9	601	17	2,512
Administrative support occupations, including clerical	(349)	3,805	11	-48	69	-178	124	146	378	476	2,619	208	994
Other simple service occupations	(215)	4,129	5	-5	-10	-80	49	15	1,542	49	2,174	389	4,593
Agriculture, forestry, fishing, and related occupations	(234)	97	23	-1	0	-10	1	40	15	3	8	17	-112
Precision production, craft, and repair occupations	(490)	656	8	-139	349	-239	6	25	132	52	388	74	833
Operators, fabricators, and laborers	(328)	1,068	21	-76	55	-413	360	196	207	-4	756	-36	757

Source: Monthly Labor Review June 1995, p. 48, Nov. 1995, p. 61, June 1996, p. 30

also show that not only low-skilled workers are employed in this sector. Almost half of the additional employees in 'other services' work in occupations that rank in the upper half of the income hierarchy. However, low-wage groups such as 'personal services' (approx. 4%) or 'repair shops' (5%) are included in this category as well.

The last column in Table 3 shows future employment trends up to 2005. A consistent increase in employment is expected, and not only in the poorly paid job categories. Above average growth rates are projected for the three top levels of vocational qualifications.

Another criticism of the enormous US growth in employment is that these are mostly part-time jobs or multiple jobs (two or more jobs held by one individual). It is argued that many people are forced to work several part-time jobs to maintain their standard of living. However, the majority of new jobs created are full-time jobs. At 18-19%, the percentage of the active population working part-time has remained almost unchanged during the last decade in the US. Most part-time workers state that they are working part-time voluntarily, i.e. are not looking for a full-time job. In Germany the percentage of part-time workers has risen slowly but steadily to slightly over 16% in 1995.[20] In the US it was also found that the number of multiple jobholders has hardly increased since the eighties: it has remained almost stable at around 6%.[21] It might be interesting to note that multiple jobs are more frequently held by highly skilled people than by workers with low skills. In 1995, 3.3% of multiple jobholders had low skills (i.e. less than high school education), but 8-9% were college graduates.[22]

It is also contended that US employment growth could be explained by the large number of self-employed persons. There is no data to support this contention, however. For many years, about 7.5% of the active population (excluding the primary sector) have been self-employed. The percentage in the FRG was similar until the early nineties and has slightly increased in recent years. Small and medium-sized enterprises are responsible for most of the employment dynamics in the US. They are the real motor of the employment growth: while large US companies cut millions of jobs, SMEs created more than 12 million new ones over the last four years.[23] The innovation potential for economic growth that SMEs offer is also considerable. One other important aspect is that the general climate for setting up a business is also positive -- moderate taxes, few government regulations, easier access to capital and innovation-promoting government programmes. This is particularly important for the difficult phase between a new idea and its commercial application.[24]

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[20] OECD (1996): Employment Outlook, p. 192

[21] OECD (1996): Economic Surveys - United States, Paris, p. 79 and John F. Stinton: New data on multiple jobholding available from the CPS, in: Monthly Labor Review, Volume 120, No. 3, March 1997, p. 3 ff.

[22] Thomas Amirault (1997): Characteristics of multiple jobholders, 1995, in: Monthly Labor Review, Volume 120, Number 3, March 1997, p. 10

[23] Xavier Comtesse (1996): Innovation nach amerikanischer Manier, in: Neue Zürcher Zeitung no. 256 of 2.3. November 1996. The hiving-off of big companies, mergers or downsizing were also responsible for the employment effect. In 1992 49% of workers were employed in SMEs (5-100 employees) in the USA (FRG: 38%) and 44% in companies with a workforce greater than 100 (FRG: 52%).

[24] Ibid.

5 Conditions on the US labour market, labour market and social policy

5.1 Aspects of labour market and employment policy

Can labour market policy explain the low unemployment or the rapid employment growth in the US? First we must note that, in comparison with other industrialised countries, after Japan the US spends the least on labour market policy measures in terms of percentage of GDP[25]. In 1994/95, the US spent 0.55% (cf. Germany: 3.5%) and the trend is downwards. 60% was spent on 'passive' measures, e.g. the payment of unemployment benefits. Such income, intended to replace wages during periods of unemployment, is comparatively low and is short-term. On average, unemployment benefit amounts to 35% of the last pay cheque received, although this varies widely between states, from 27.5% in California to 49.5 % in Hawaii. Unemployment benefits are paid for a maximum of 26 weeks. This may be extended for another 13 weeks if a number of conditions are met. However, payment of unemployment benefit does not automatically include health insurance coverage.

The objective of 'active' labour market policy measures is to provide placement, counselling and training programmes (usually of relatively short duration)[26] to help unemployed people whose chances for reemployment are low find a job as quickly as possible. The 'Worker Profiling and Reemployment Services System' was adopted to serve this purpose in 1993. Participating unemployment insurance funds must provide services such as counselling, information, tests and job clubs to the unemployed threatened with longer-term unemployment. Unemployed persons benefiting from the scheme must participate in such 'profiling' to become eligible for benefits.

The 'School-to-Work Opportunities Act', also adopted in 1993, provides various forms of assistance to ease the transition from school to working life. It is mainly aimed at poverty-stricken regions. This programme, like its forerunners, involves the close co-operation of local decision-makers. The objective is twofold: to tailor the education received at school to match the skills required on the job and to upgrade vocational skills generally.

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[25] Only in the second half of the seventies was this percentage significant. In the early eighties it dropped to a very low level again and has remained there. See OECD (1996): Employment Outlook, p. 205 ff. and OECD (1996): Economic Surveys: USA, p. 105

[26] See Auer (1995): Das amerikanische Beschäftigungswunder, in: InforMISEP, No. 49/1995, p. 26. A good survey of labour market policy measures in the US, including an assessment by the US Department of Labor (1995): What's working (and what's not), Washington. The results are diverse which goes to explain the US government's hesitation to implement labour market policy programmes. Job search assistance and wage subsidies for welfare recipients, especially single mothers are evaluated positively. The results for wage subsidies for disadvantaged youths are less favourable. The results for further training programmes were also mixed, depending on duration and target group. The courses, which are generally 3-6 months long, were not very successful in the case of young people, the largest group of participants. The results were better for adults and for longer courses (at least 1 year). However, only a very small number of workers are participating in such programmes because they are expensive. Special positive mention is made of the Job Corps for youths. Very disadvantaged youths - about. 60,000 per year - are placed in a type of all day school and subjected to very strict rules. The content of the annual training programme ranges from basic skills to social skills. The cost is relatively high: $15,000 per participant per year.

Welfare payment measures are also designed to help 'mobilise' the unemployed. Since mid-1997, AFDC (Aid to Families with Dependent Children: the largest US welfare programme with about 5 million beneficiaries) has only been awarded as a 'passive' transfer payment for a maximum of two years. Any further payments depend on participation in an employment activity or training programme. To ensure the availability of such activities and training, JOBS (Job Opportunities and Basic Skills: a job and training programme for welfare recipients which has been running since 1988), is to be expanded and an additional job creation programme created. In the meantime, AFDC and JOBS have been merged to form TANF (Temporary Assistance for Needy Families). Both of these programmes leave considerable scope to the individual states.

In short, one can say that most labour market policy measures are essentially passive support payments. They exert pressure to seek reemployment, because the income they provide is low and does not last long. Anyone out of work does not have much choice but to find a new job as quickly as possible, even though the pay may be worse. The recent US administration decisions to limit welfare payments to a maximum of two years (e.g. for single mothers) or to link these payments to participation in an employment activity or training scheme, act as a similar source of pressure.

5.2 Aspects of labour market flexibility

As already pointed out, wages are more responsive in the US employment system than in Europe. The volume of work varies as a result of hirings and dismissals rather than the workforce opting for alternative working hour arrangements such as part-time, overtime or short-time work. However, the US labour market demands a high measure of flexibility on the part of each individual worker. Although global labour market data are positive, these conditions have led to greater job insecurity.[27] People are increasingly concerned about whether their skills will be adequate to cope in a world of technological change and big company rationalisation. Although it is possible to find a new job relatively quickly in the US, when people are forced into a job change, they often face significant economic losses and less social security (e.g. health insurance).

US labour market flexibility is characterised by the following factors:[28]

- Private contractual freedom is the guiding principle. The central government's legislating role is minimal and so employers negotiate most of the conditions governing the terms of employment directly with employees. Unionisation is very limited -- only about 10% of employees in the private sector are trade union members -- most employment contracts are individually negotiated.

- Such a decentralised wage negotiation structure allows for agreements which can respond better to the economic conditions of individual companies, especially in an

[27] OECD (1997): Employment Outlook, Paris, p. 138

[28] See Jahresgutachten 1996/97 des Sachverständigenrates zur Begutachtung der gesamtwirtschaftlichen Entwicklung, printed by the Deutschen Bundestag 13/6200,18 November, 1996, p. 43 f.

unfavourable economic climate. For example, there might be an agreement that new employees will start at lower wages.

- Mobility is high both geographically and across occupations. People are frequently willing to move to get a job; this mobility is encouraged by a deregulated housing market. Occupational mobility is also high: it is not considered a career handicap to have worked in a job unrelated to one's training for some time.

- Due to the high rate of mobility, the average seniority in a US company is below the European average and has remained almost unchanged since the seventies.[29] People tend to remain in the same job for less time in the US than in any other OECD county except for Australia.[30] Terminations or job changes are not considered to be such a stigma for one's career as is the case in Germany.

- There is no generally applicable legislation on termination protection. About two thirds of all employees in the US have open-ended employment contracts according to which they may be terminated any time for 'just cause'. However, a general prohibition of discrimination,[31] collective agreements and case law do circumscribe employers' freedom to terminate.

- The unemployed are under considerable pressure to find a new job as quickly as possible because unemployment benefits amount only to a fraction (20–40%) of their last net wage and does not automatically include public health insurance.

- There is no general institutionalised vocational training and only very little in-house further training in the US. Young workers have to acquire their vocational know-how and skills on the job.

- There are hardly any government regulations limiting the freedom to exercise an occupation (i.e. few practical restrictions to access).

5.3 The 'development path' of the US labour market

In conclusion, this article looks at the different social paths taken by the US and the German labour market. It is sometimes said that the US is the trend-setter: if this is so, then preparations need to be made for imminent change in Europe and decisions made as to which can and should be allowed to happen.

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[29] Council of Economic Advisers (1997): Economic report of the President, Washington, p.140

[30] A certain amount of polarisation can be seen here as well: about one quarter of all employment contracts are short-term employment contracts of less than one year (by comparison: Germany 16%). The percentages for longer-term employment contracts are similar for the USA and Germany. 5–10 years: USA 20%, FRG 17 %; 10–20 years: USA 17%, FRG 18%. Data refer to 1995 and state the current duration of existing employment, not its completed duration. OECD (1997): Employment Outlook, Paris, p. 138

[31] A federal law prohibits discrimination for reasons of ethnic origin, religion, sex, former nationality, disability or age. In case of termination it is often difficult for companies to prove that they did not violate any of the above discrimination criteria. Most labour law litigation can be avoided by acting according to the principle 'last in, first out'.

Jürgen Espenhorst has described the social backdrop to the US labour market very vividly:[32] Well-trained people making good incomes have the purchasing power to create jobs for low-wage earners. The higher the income of better earners, the more cheap labour can be employed. The more purchasing power the top third of society has, the more home help, consultants, security guards and personal services they can afford. At the same time, they also expect better services for themselves and their children from lawyers, doctors and teachers. Consequently, not only are low-wage jobs created, but also additional opportunities for those in the higher-income bracket. This in turn stimulates competition in the upper end of the labour market, with the inducement of advancement to the top third as a reward. Such a self-sustaining process in the upper income bracket acts simultaneously as a selection process, where all that counts is economic achievement. However, only those with a solid school or college education and vocational experience can participate in this competition.

The conditions for advancement in the lowest third are different. The ranks of those that have little choice but to accept simple jobs are swollen by immigrants, ethnic minorities, school drop-outs etc. Stiff competition in this labour market sector keeps wages down or depresses them even further.

The cheaper services are, the more demand will grow. It is really the size of the wage gap that is important here, not productivity. The wider the gap and the stronger the pressure created by the supply of cheap labour, the more jobs for unskilled labour will be created.

In the US, factor price ratios are different in production than in Germany, for example. Labour is relatively cheap compared to the capital invested in many industries. Thus, in the US there is much less pressure to rationalise; consequently, increases in labour productivity are negligible. However, if productivity does not improve, there is no room for real wage increases.

Clearly, the growth path for the US economy is different from those of Western Europe and Japan. Capital investment and rationalisation are key factors in the latter; in the US, wage restraint is the main mechanism used to compensate for the competitive disadvantage.

It is therefore unhelpful to measure the US economy's level of development by looking at general growth in productivity. When the population is growing, the main priority is to create jobs as quickly as possible. If this fails, social tensions caused by polarising incomes get out of control. This trend could only be changed by income redistribution – a move which would run counter to all US tradition.

This economic policy approach will only work as long as the economy is predominantly self-contained, i.e. dominated by the domestic market. As the US gets increasingly entangled in foreign commerce and trade, a dilemma will ensue. Taking just one example, in the case of low-wage industries, such involvement in international trade will open up access to the US market for countries with still lower wages. As a response to this competition, US wages will have to drop yet again or productivity will have to increase.

[32] J. Espenhorst (1995): Arbeitsgesellschaft USA, p. 202 ff.

But Germany also faces a dilemma: should upper incomes also grow 'in line with performance', i.e. at an above average rate? Germans would then be forced to work for low wages, leading to a similar outcome to the US: impressive numbers of new jobs, but at the cost of a society that is split by a wage gap. In Germany a much larger proportion of the labour force than in the US is still employed in manufacturing (38% versus 24%). This industry is very much subject to foreign competition. Halting technological progress in this field in order to counter 'excessive' productivity increases would slow down product and process innovation, diminish qualitative competitiveness, without contributing to any sustained improvement in price competitiveness.[33] Globalisation and the larger number of competitors from Central and Eastern European countries have increased competitive pressure. Frequently, this competition affects stagnating markets, e.g. for consumer durables, where the market is saturated as a result of increasing prosperity.[34] Demand for these goods is not very responsive to price. In the short and medium term, there are only two alternatives to remain competitive in stagnating markets: either increasing productivity by process innovation (rationalisation, improved organisational planning), or cutting wages. According to Appelbaum/Schettkat,[35] a third medium- to long-term option is to launch on the market innovative products which are responsive to price. They contend that demand elasticity depends on the maturity of the products and their market penetration. The increased sales potential of products that are already common on the market (old products) is very limited, since even if the price drops, demand is unresponsive. New and innovative products, however, enjoy an unsaturated market which can expand quickly, depending on price, since the demand for these products is responsive to price. Given a certain pricing and demand, high wages can be paid for these products and employment may even be expanded. The authors themselves, however, feel that this will not be a solution to employment policy problems. They therefore advocate as a third option the transition from an industrial to a service society.[36] In the US, wage disparities have already brought this transition about, although it has been accompanied by all the problematic consequences of having 'working poor'. Schettkat suggests that services should be supported with subsidies in certain cases to make them marketable and to avoid wages being paid which would keep workers in these sectors poor.[37] An employment potential for private services seems very much feasible in comparison to the US.

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[33] Ronald Schettkat (1996): Das Beschäftigungsproblem der Industriegesellschaften, in: Aus Politik and Zeitgeschichte, vol. 26/96, p. 32.

[34] Ibid., p. 32 ff.

[35] Eileen Appelbaum, Ronald Schettkat (1994): Das Ende der Vollbeschäftigung? Zur Wirtschaftsentwicklung in Industrieländern, in: Wirtschaftsdienst 1994, No. 4, p. 193 ff. and Ronald Schettkat (1996): Das Beschäftigungsproblem der Industriegesellschaften, in: Aus Politik and Zeitgeschichte, vol. 26/96, p. 33

[36] Ronald Schettkat (1996): Das Beschäftigungsproblem der Industriegesellschaften, in: Aus Politik and Zeitgeschichte, B 26/96, p. 33.

[37] Subsidies could come in at the point of consumption, i.e. at first the prices will be primarily to cover costs and then it will be reduced e.g. by tax credits or vouchers. There are different options to subsidise production, e.g. a negative income tax for employees or a tax reduction. (see Schettkat: Das Beschäftitungsproblem der Industriegesellschaften, in: Aus Politik and Zeitgeschichte, vol. 26/96, p. 34 ff.

6 Summary and conclusions

The US has recently enjoyed the lowest unemployment rates of all OECD countries -- although there have been significant deviations, especially for young people or certain ethnic groups. The short average duration of unemployment is mainly due to the following factors: the US social support system is much more limited than in Western Europe and consequently there is considerable financial pressure to find work. Given these circumstances, the unemployed have little choice but to find a job as soon as possible, even though it might pay less. On the other hand, the steady growth of employment in the US absorbs job-seekers relatively easily. During times of strong employment growth, lay-offs caused by structural changes can be coped with more easily. The fact that there is greater mobility in the US also plays a positive role.

In the US, the steady, abundant growth in employment has given rise to the terms 'employment miracle', or the 'American job-machine'. The US economy has indeed succeeded in integrating a growing labour force into the labour market at a time when more Americans have been reaching working age, the number of women wanting to work (already high) has continued to grow and immigration remained high. The downside to high employment growth is the relatively low growth in productivity (e.g. in the service sector) and the concomitant lower wages, especially in the lower income groups. However, it is wrong to say that only poorly paid jobs have been created. The most striking feature of analyses of changing trends in industries, occupations and wages is the polarisation that is taking place. The US economy generates both more poorly paid and more highly paid jobs. The resulting wage gap started to form in the early eighties and has led to an extremely unequal distribution of incomes and wealth. Robert Reich, labour secretary in the previous Clinton Administration, believes this development will be a major danger for the future cohesion of the US society if it is not stopped.

Yet it is not correct to assume that the smaller number of jobs created in Europe are necessarily better jobs. In Europe part-time work, fixed-term contracts or temporary work make up a big slice of employment growth. Nor is the emergence of poverty or social exclusion a purely US phenomenon.[38] But the differences in income are not as drastic in Europe, because the wage gap is narrower and (except for the UK) because transfer incomes are higher.

Purely passive support payments for the unemployed over prolonged periods are problematic from the perspective of labour market policy because people get used to them and become discouraged. This is why a wide range of active labour market policy instruments have been devised by Western European countries. Examples are: support for further training and retraining, recruitment subsidies, wage subsidies and public job creation, assistance to set up a business, etc. Compared to European countries, the US spends very little on such programmes. These programmes must be funded. West European countries have so far been able to afford them because of their higher pro-

[38] Eurostat lists 17% of the EU's population as poor in 1993 (Germany: 11%). The poverty threshold is defined as 50% of the arithmetical mean of all net incomes. See Eurostat (1997): Distribution of earnings and poverty in the Europe of Twelve -1993, Series: Statistik kurzgefaßt - Bevölkerung and soziale Bedingungen, no. 6/1997, Luxembourg

ductivity (with higher wages and higher taxes). It is possible to produce more goods and services with less labour in Europe than in the USA. However, at a time of a growing global job deficit and increasing unemployment, it is becoming increasingly difficult to provide such funding.

Current moderate economic growth rates will probably not permit any growth in employment without greater wage disparity (and more downward wage drift).[39] It is argued that unemployment, including long-term unemployment, could be cut by more wage disparity, i.e. lower wages.[40] The problem is that there are not enough low wage jobs. Basic jobs were and still are weeded out in the course of rationalisation and restructuring in Germany.[41] In the US, however, basic jobs can still be easily found. The US economy has had to weather foreign competition to a much lesser extent than the German economy. This has resulted in a large, domestically-oriented, low-productivity service sector and low wages. The big differences in wages make it attractive for higher income earners to buy cheap private services. The widening of the wage gap has been further fuelled by the waning influence of US trade unions.

The American example teaches us that greater wage disparity also means more social inequality and more poverty -- with grim consequences, such as inadequate health care, social exclusion, ghetto formation, crime.[42] Europe should not therefore uncritically follow the US example and drastically cut wages in the lower wage categories merely to achieve higher employment. General wage restraint, redistribution and greater flexibility of working hours can increase employment as well.[43] Alternatively, part of the wages

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[39] Peter Auer (1995): Das amerikanische Beschäftigungswunder, in: InforMISEP, no. 49/1995, p. 30. In its country survey for Germany, the OECD recommends more wage differentiation: OECD (1996): Economic Surveys - Germany, p. 109, Paris; see also Johann Eekhoff (1996): Beschäftigung and soziale Sicherung, Tübingen, p. 35 ff.

[40] Also see Lutz Bellmann (1996): Wage differentiation and Long-term Unemployment, in: IAB-Topics No. 19. An international comparison leads him to conclude: 'that larger wage disparity decreases the number of long-term unemployed', p. 10

[41] Hans-Peter Klös (1996): Einfacharbeitsplätze als Ansatzpunkt einer kommunalen Arbeitsmarktpolitik, Manuscript of a paper given at the IAB Colloquium on 13 Dec. 1996 in Nürnberg and Institut der deutschen Wirtschaft (1997): Einfacharbeitsplätze - Stiefkinder des Arbeitsmarktes, Cologne

[42] In 1994, for instance, 1.5 million Americans were in prison - out of a population of 260 m. The corresponding figure for Germany was about 44,000 - for a population of 81 million. Although the crime rate in the USA declined in recent years, the number of prison inmates has increased: between 1992 and 1994 by 216,000. An analysis of the ethnic origin of the inmates results in a dramatic picture: about 7-8% of the black male labour force is in prison. Every fourth male black between 18 and 34 years is under criminal supervision, i.e. either in prison or on probation. The trend is still upward. This suggests e.g. a trade-off between social security and public security, because a certain price must be paid for the latter as well: expenditures for police and prisons rose by 10% annually between 1985-1992. In 1993 it was estimated that each prison inmate costs $22,600 per year (OECD (1995): Economic Surveys: United States, p. 190). Richard Freeman estimates that the damage resulting from crime plus the expenses for the law enforcement system account for 4% of the GDP. At the same time, the USA spent only 0.55% of its GDP on labour market policy, including payments to replace earnings. On the link between crime, unemployment and the distribution of income see Richard Freeman: Why do so many young American Men commit Crimes and What might we do about this? in: Journal of Economic Perspectives, 1996, Volume 10, No. 1, p. 25-42; John DiIulio (1996): Help Wanted: Economists, Crime and Public Policy, in: Journal of Economic Perspectives, Volume 10, No. 1, p. 3-24 and Isaac Ehrlich (1996): Crime, Punishment, and the Market for Offenses, in: Journal of Economic Perspectives, Volume 10, No. 1, p. 43-67

[43] As is shown by the Dutch example and the results the IAB achieved from the application of the SYSIFO model. See IAB-Kurzbericht no. 7/2.8.1996, proposing a range of measures to boost employment. One

paid for private services might become eligible for tax reductions (e.g. by introducing 'service vouchers'). Low starting wages for certain groups such as young people, newcomers and returnees to the labour market, or the long-term unemployed should not be a taboo. It is generally better for an unemployed person to have a lower paid job than to have none at all. To cut the cost of labour, the burden of non-wage labour costs might be eased (e.g. when hiring low-skilled workers), by reducing or waiving the employer's contributions to social security insurance. At the same time, poverty might be avoided if income is derived both from earnings and from transfer schemes: if properly planned, this might lower labour costs. Negative income tax for low wage earners, maybe in a form similar to the US earned income tax credits,[44] is another option worth consideration.

It should not be forgotten that US and European societies are based on different social constructs. In Europe, the emphasis is on concepts like social solidarity and equal opportunities; in the US, the emphasis is on individual opportunities and individual risks. This has resulted in different social systems. The question is whether and for how long transfer payments will be financially feasible and constitute a reasonable labour market policy, if there are not enough jobs. Will it be acceptable to have more people working at minimal wages and without reasonable social security in the light of all the consequences of social exclusion and poverty? The West European countries are facing the dilemma of how to achieve employment-generating growth without sweeping away the foundations of the welfare state.

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must be aware, however, that creating more employment by redistribution or greater flexibility might in the end mean less income for the individual.

[44] The following paper includes proposals for increasing the income of low-wage earners: Robert Haveman (1996): Reducing Poverty while increasing Employment: a Primer on Alternative Strategies, and a Blueprint, in OECD Economic Studies No. 26, p. 08 ff.

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